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National Intelligence Bulletin

USAF review(s) completed.

DIA review(s) completed.

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June 7, 1975

No 662

State Dept. review completed

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Approved For Release 2007/03/07 : CIA-RDP79T00975A027800010012-0

Approved For Release 2007/03/07 : CIA-RDP79T00975A027800010012-0

National Intelligence Bulletin

June 7, 1975

CONTENTS

| | |
|--|---|
| AZORES: Local military take over Sao Miguel island | 1 |
| ANGOLA: New round of heavy fighting | 3 |
| PORUGAL-ANGOLA: Lisbon divided on how to deal with Angola | 4 |
| UK-EC: Implications of Wilson's referendum victory | 6 |

25X1

| | |
|---|----|
| LAOS: Harassment of US citizens continues | 10 |
| LEBANON: Sadat offers to assist in talks between new government and fedayeen | 11 |
| TAIWAN: Co-production of F-5Es to be expanded | 12 |
| JAPAN-CHINA: Tokyo approves trade credit for Peking | 13 |

25X1

| | |
|---|----|
| CZECHOSLOVAKIA: Husak's prospects | 15 |
|---|----|

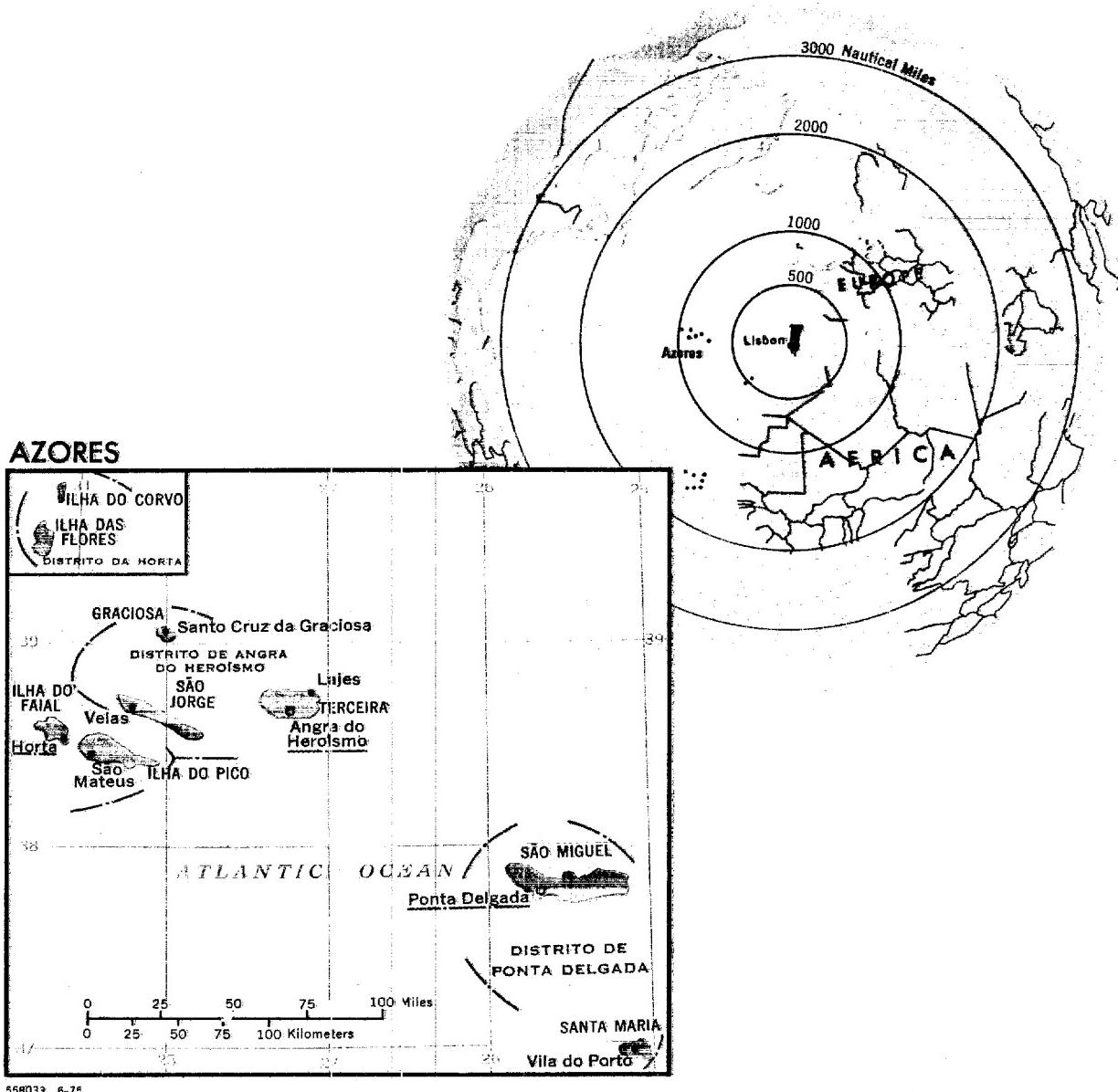
25X1

| | |
|--|----|
| SPANISH SAHARA: Madrid offers to host four-party negotiations | 17 |
|--|----|

25X1

| | |
|--------------------------|----|
| FOR THE RECORD | 19 |
|--------------------------|----|

25X1



National Intelligence Bulletin

June 7, 1975

AZORES

The local military have taken over the Azorean island of Sao Miguel, after a protest demonstration forced the resignation of the civil governor and apparently touched off a separatist effort to seize control.

Separatists apparently sought to exploit a demonstration by some 3,000 Azoreans who occupied the Portuguese civil governor's office in Ponta Delgada yesterday afternoon.

The separatists closed Ponta Delgada airport and took over a local radio station. The airport was later reopened, apparently on orders of the military governor.

There were early indications that some army members on Sao Miguel had acquiesced in the separatist effort. The separatists issued a call for their supporters elsewhere in the Azores to seize "points of decision" and implied that they had military support.

A member of the Azorean Liberation Front later told the US consul in Ponta Delgada that Military Governor Magalhaes was meeting with representatives of the Front. The military on Sao Miguel, after some vacillation, appear to have decided to remain loyal to Lisbon, at least for now.

A communique issued in Lisbon last night claimed that the situation was fully under the control of the Armed Forces Movement.

Magalhaes' tie to Lisbon appears to be weak, however, and may be cut if Portugal's ruling military authorities seek to retaliate for yesterday's events. So far, apparently, no one has been arrested, and the separatists are thus free to try to capitalize on the support they received yesterday and perhaps to try again with more preparation.

Coordination with groups outside Ponta Delgada was not established yesterday, and nothing happened on other islands. The separatists had little chance of seizing the key points—military armories and communications facilities—allegedly called for in their original plan.

US military officials at Lajes air base, on Terceira Island, report that the situation there remained calm.

National Intelligence Bulletin

June 7, 1975

There was no interference with the seven NATO ships—including a US vessel and a Portuguese ship—currently visiting Ponta Delgada.

Lisbon's initial reaction to the developments was subdued, but charges of a rightist attempt to thwart the Portuguese revolution are sure to arise. Leftists are likely to make an effort to link the US to the disturbances.

25X1

National Intelligence Bulletin

June 7, 1975

ANGOLA

A new round of heavy fighting broke out in Luanda on Thursday when troops of the Popular Movement for the Liberation of Angola attacked several areas in the city held by forces of the National Front for the Liberation of Angola. Thus far, the Popular Movement appears to have the upper hand.

The Popular Movement's military successes over the past week in northern Angola and the enclave of Cabinda have probably encouraged it to try to force the Front out of Luanda. In other parts of Angola, the Popular Movement now seems in a good position to disrupt the Front's supply routes from northern Angola and Zaire to Luanda. The Front already appears to be suffering shortages of arms and ammunition. Fragmentary reports on the fighting in Cabinda suggest the Popular Movement may have pushed the Front out of the capital city.

25X1

25X1

National Intelligence Bulletin

June 7, 1975

PORUGAL-ANGOLA

Renewed fighting in Angola is posing serious problems for Portugal's ruling Armed Forces Movement, which is divided on how to deal with its African territory.

25X1

A recent Portuguese delegation to Zaire led by Revolutionary Council member Vitor Alves signed a joint declaration reiterating Portugal's position of neutrality among the factions and stating that Portugal pledged to avoid any action that might worsen the Angola situation. Although the communique is consistent with Portugal's public stand, it also served to mollify President Mobutu, who had been publicly denounced by Rosa Coutinho for his support to the Front.

Further evidence of the split in the Armed Forces Movement on the Angolan issue came to light this week in remarks made to Ambassador Carlucci by Interterritorial Coordination Minister Almeida Santos. Santos claimed that over the objection of Rosa Coutinho he had succeeded in persuading Portuguese leaders to adopt a position of genuine neutrality. He argued that the Popular Movement clearly would be defeated and that Portugal could not afford to back a loser. His admission that Portugal has been secretly backing the Popular Movement is the first by any high government official.

The issue, however, may not have been finally resolved as Santos claims. Rosa Coutinho has a large following and may yet sway the Armed Forces Movement to his point of view. His arguments will be strengthened by recent Popular Movement successes in the fighting in Angola.

Meanwhile, the influx of white refugees from the Portuguese colony could cause additional problems for Portugal's leaders. It is estimated that at least 5,000

National Intelligence BulletinJune 7, 1975

Portuguese emigrants have left Angola since August, with 1,500 returning home. As many as 50,000 more are now said to have booked passage. The refugees that do return to Portugal will not only swell the ranks of the unemployed but will also reintroduce into Portugal's turbulent political life a large number of conservative military officers who view present political developments in Lisbon with alarm.

25X1

National Intelligence Bulletin

June 7, 1975

UK-EC

The British electorate's overwhelming endorsement of EC membership in the referendum on June 5 indicates that Prime Minister Wilson's gamble with his political future paid off. Several years ago, Wilson had suggested holding a referendum in order to prevent the Labor Party from splitting over this controversial question.

Over 67 percent voted in favor of remaining in the EC. Roughly 65 percent of the electorate turned out—less than normal for general elections but sufficiently high for the government to declare that the voters had made clear their views. Wilson hoped that a positive vote in the referendum would put to rest, particularly within his own Labor Party, the question of Britain's European connection.

In Scotland, a surprising 58 percent voted to remain in the EC. This is a blow to the Scottish Nationalists, who had urged a "no" vote to protest that England had dragged Scotland into the EC. Some Scottish members of Parliament suggest that the positive Scottish vote indicates that Nationalist strength has peaked.

Despite the outcome of the vote, some opponents may try to keep the issue alive. The chairman of the National Referendum Campaign—the anti-Market umbrella organization—said that a "yes" vote did not need to be final and that what one parliamentary session did, another could undo. However, one of the leading anti-Marketeers—who is also head of Britain's largest trade union—called on Britons to look ahead now and unite behind the government to solve the country's mounting economic problems.

Now that the all-consuming referendum campaign is over, Wilson is expected to move in two directions before Parliament recesses in mid-July:

--shuffle the cabinet to move some of the uncooperative vocal anti-Marketeers to less important positions;

--address growing economic problems, especially rising inflation and unemployment. The trade unions, industry, and the government will search more urgently than before for a substitute for the nearly defunct social contract.

The unqualified British "yes" to EC membership is being greeted with immense relief in the EC capitals. The Community can now devote more attention to problems that had been deferred while the British question

National Intelligence Bulletin

June 7, 1975

preoccupied the Nine. The referendum is a major political success for the Community and could provide new forward momentum. At the least, it should temporarily still anti-EC sentiment in Denmark that was deriving inspiration from the UK.

London will move quickly to mend fences with its EC partners and assuage the considerable resentment currently felt toward it in many quarters. There will be opportunities for conciliatory moves at several Council meetings this month, including one of the foreign ministers, and at a "European Council" of the nine heads of government next month. Recently announced changes in the UK Foreign Office and diplomatic service probably point to Wilson's intention to increase the "European" cast of British foreign policy.

The Labor Party, for the first time, will now take seats in the European Parliament, and British representatives, including those from the trade union sector, will attend meetings of the economic and social committee. No major changes in London's position on principal issues under EC competence are expected anytime soon, and Britain will continue staunchly to protect its national interests in EC forums.

British influence on the EC has been to broaden and liberalize the Community's external policies while making its machinery more pragmatic and less bureaucratic. This positive impact can be expected to continue, as will London's efforts to counter the EC's tendency to evolve along protectionist lines.

25X1

Next 1 Page(s) In Document Exempt

National Intelligence Bulletin

June 7, 1975

LAOS

There have been no major anti-US demonstrations or disturbances in Vientiane for nearly a week, but harassment of Americans continues.

Yesterday, a so-called "protest committee" claiming to represent some 2,700 Lao employees of AID demanded an extra three months' severance pay for these employees, on top of the generous termination benefits already promised them. In order to keep the AID dissolution negotiations on track and to protect the safety of the 200 or so Americans still in the Lao capital, US officials had little choice but to acquiesce.

The Pathet Lao are continuing to enter the private residences of American AID personnel, ostensibly for the purpose of inventorying the "furniture." In some cases, they have confiscated refrigerators, stoves, and air conditioners—possibly in the belief that AID personnel will attempt to remove these appliances when they leave Laos on or before June 30.

25X1

National Intelligence Bulletin

June 7, 1975

LEBANON

Lebanese Prime Minister - designate Rashid Karami, who has been trying for ten days to assemble a new cabinet, yesterday received an assist from Egyptian President Sadat.

In an interview published in a Beirut newspaper, Sadat urged all Arab states to refrain from interference in Lebanon's domestic affairs, proclaimed his own willingness to visit Beirut to facilitate the negotiation of a new agreement between the Lebanese and the fedayeen, and expressed confidence that the head of the right-wing Phalanges Party, Pierre Jumayyil, will recognize his "Arab responsibility."

Sadat appealed to Jumayyil to cooperate in seeking an end to Lebanon's political and security crisis, adding that he has "no doubt that Jumayyil will respond." This expression of confidence, although qualified, will tend to undermine the position of Progressive Socialist leader Kamal Jumblatt, who has held up the formation of a government by insisting that the Phalangists should be excluded because of their role in the recent fighting.

Jumayyil has publicly welcomed Sadat's initiative. He has shown no sign, however, of backing down from his demand that the Phalangists be included in any new government.

A variety of Lebanese political and religious leaders—and, probably, representatives of the Syrian government—have also been attempting to persuade Jumblatt to limit his demands and cooperate with Karami. With this combination of Arabs calling for moderation, Jumblatt is not likely to hold out for long—especially if as is likely, his party is offered important cabinet posts.

Karami has said only that he will form a government "in due time." He has justified his failure to make quick progress by repeating that the country needs a cabinet competent to deal with, rather than ignore, Lebanon's problems.

Karami has indirectly criticized President Franjiyah's handling of the current crisis by publicly praising former president Shihab, who—with Karami as prime minister—provided vigorous and effective leadership after the 1958 civil war. Karami probably holds only limited hope that Franjiyah will provide much help in assembling a cabinet, but is eager to protect himself against his own possible failure by moving in advance to put some of the blame on Franjiyah.

In fact, recent developments have significantly reduced Franjiyah's political strength and popularity, although he remains the dominant figure. Still, he has been

National Intelligence Bulletin

June 7, 1975

politically embarrassed by having publicly to recognize the failure of his preferred military cabinet, the need to turn to his longtime rival Karami, and the continuing necessity to accommodate Syrian desires when dealing with Lebanon's domestic problems

25X1

TAIWAN

Taipei wants to increase assembly of F-5Es under an existing co-production agreement with the US from 100 to possibly as many as 200. This will increase the fighter force, as well as lower the unit costs and keep trained personnel employed.

The Nationalists' initial request to co-produce an additional 20 F-5E aircraft has been approved by the US. Their requested credit arrangements for these aircraft have been disapproved, however, and Taiwan is expected to attempt domestic financing to support the operation.

Taiwan's participation in co-production of the aircraft—which has been limited to the assembly of prefabricated components and parts—is to undergo a phased increase. By mid-1976, the Nationalists should be manufacturing some components from US-supplied raw materials. Taiwan would also like to co-produce 60 to 80 engines for the aircraft.

25X1

National Intelligence Bulletin

June 7, 1975

JAPAN-CHINA

Tokyo has tentatively approved a one-year, \$500-million trade credit for China. The credit, arranged in April, will help correct Peking's balance of payments this year.

The credit will be used to finance Chinese imports of 1.5 million tons of steel from Japan this year. It will also enable Peking to continue importing industrial products and equipment, while avoiding at least temporarily a balance-of-payments problem.

Without the credit, China had anticipated a \$600-million trade deficit with Japan this year. In 1974, the deficit with Japan was \$840 million—five times the deficit in 1973. Total Japanese trade with China will reach \$4 billion this year, \$1 billion more than last year.

The credit will provide some relief to Japan's depressed steel industry. Peking's 1.5-million-ton steel order represents nearly 4 percent of Japan's total steel exports. Shipments to China have grown from 500,000 tons in 1970 to a high of 1.9 million tons last year.

25X1

25X1

Approved For Release 2007/03/07 : CIA-RDP79T00975A027800010012-0

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National Intelligence Bulletin

June 7, 1975

CZECHOSLOVAKIA

Gustav Husak's election to the presidency, on top of his continuing role as party secretary, confirms his position as the strongest leader in the Prague regime. Over the coming months, however, his political acumen will be put to the test as he grapples with difficult internal problems.

Husak's tenure in the two top jobs appears secure, at least until the party congress next spring. He is apparently in good health and, after several months of intensive internal debates centering on the selection of a successor to former president Svoboda, he has clearly emerged as "first among equals." More important, the fact that Husak won the presidency demonstrates he has Moscow's endorsement.

The US embassy reports that its diplomatic contacts in Prague are, nevertheless, generally reluctant to conclude that Husak's position is now unassailable. Indeed, the Central Committee plenum that nominated Husak for the presidency conspicuously avoided removing the incapacitated Svoboda from the party Presidium. Although Svoboda's retention in the party's top ruling body preserves the delicate balance between moderates led by Husak and the hard-liners, Husak probably would have preferred replacing him with another moderate.

Husak's dual posts will probably make him increasingly vulnerable to internal critics, and he will no longer be able to devote full time to running the party. Moreover, some members of the leadership—rightly or wrongly—can be expected to interpret his elevation to the presidency as a "kick upstairs." The resulting uncertainty about Husak's political strength, plus the need eventually to replace Svoboda on the Presidium, could lead to increased political in-fighting, thereby further complicating Husak's efforts to lead the regime.

Husak must still find a way to heal the wounds of 1968, when as many as 500,000 party members were purged in the aftermath of the Soviet invasion. He favors moderation and is engaged in factional struggles with party hard-liners who oppose his efforts to rehabilitate former party members—primarily at the lower levels—on a case-by-case basis. There are no signs that Husak has won this struggle.

Another problem confronting Husak is what to do with his predecessor, Alexander Dubcek.

Husak could find it difficult to muzzle Dubcek and his supporters. Failure to do so will bring Husak under increasing pressure from revenge-seeking hard-liners at home.

25X1

25X1

National Intelligence Bulletin

June 7, 1975

The determining factor in Husak's future will probably be Moscow's continuing appraisal of his performance. He will have to be particularly adroit both in living up to Soviet expectations and in establishing political stability in a party and a nation still haunted by the events of 1968.

25X1



25X1

25X1



National Intelligence Bulletin

June 7, 1975

SPANISH SAHARA

A Spanish Foreign Ministry official has indicated that his government this week informed Morocco, Mauritania, and Algeria that it would soon invite them formally to a four-party international conference to discuss the future of Spanish Sahara.

According to the official, if one or more of the parties reject the invitation, Spain then plans to request UN Secretary General Waldheim to convoke such a conference under his own auspices. Waldheim's announced visit to all four countries next week may lay the groundwork for such a conference. The official stated that if a conference cannot be successfully convoked even under UN auspices, Spain's "hands will be clean"; it will have made an honest effort to seek a solution among the interested parties. The next step then would be up to the UN.

The official stressed Spain's willingness to consider any possible solution—not excluding annexation or partition—that the interested parties may propose. He insisted that Madrid is not committed to the creation of an independent state or to surrender sovereignty to any particular Saharan political force. Rabat has not yet dropped its objection to Algerian participation in negotiations to settle the disposition of the territory, but we believe Morocco will acquiesce to prevent an early Spanish withdrawal—a possibility raised in a statement issued by Madrid last month.

A mutually acceptable political solution will be difficult to achieve. Algiers opposes Moroccan annexation of all the territory, while Rabat opposes Spanish Saharan independence. Both Morocco and Mauritania fear a hasty Spanish withdrawal before a political settlement can be negotiated.

Algerian opposition to Morocco's claims has not diminished. To exert pressure, King Hassan has orchestrated an anti-Algeria press campaign, including attacks by Moroccan party leaders.

For the present, the Algerians seem unconcerned about Moroccan pressure tactics. They would like to see Spain withdraw leaving an established government in place, presumably the pro-independence party in the Sahara that Algeria is publicly supporting. The Algerians have the capability to exert pressure on Morocco by enlisting international diplomatic support for granting Spanish Sahara independence or by supporting subversive activity by Moroccan dissidents residing in Algeria.

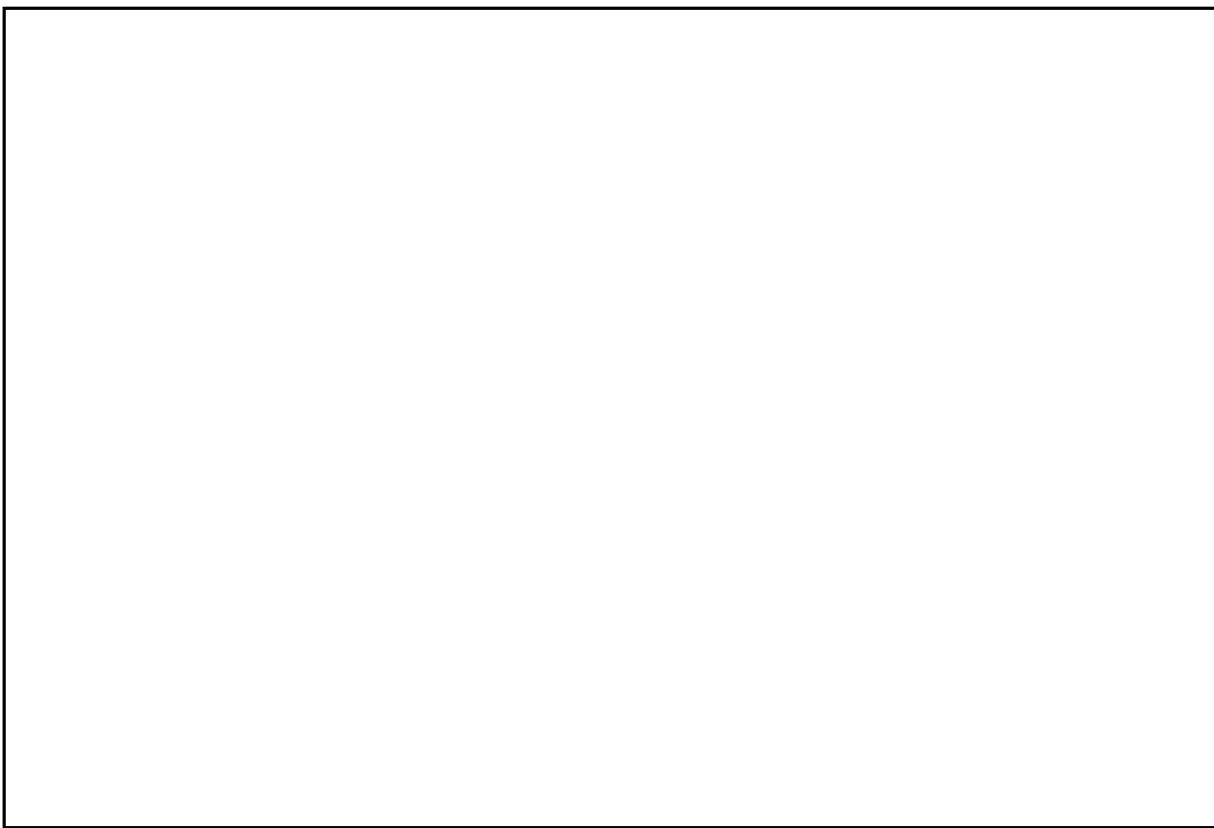
Mauritania, for its part, remains fearful of Moroccan irredentism. Nevertheless, it is interested in a partition of the region with Morocco and claims to have reached

National Intelligence Bulletin

June 7, 1975

agreement with Rabat. It accepts Algeria as an interested party, but gives it a secondary role because Algiers has no territorial claim. In any negotiations, Nouakchott will argue that partition is the most viable compromise solution.

25X1



25X1

25X1

National Intelligence Bulletin

June 7, 1975

FOR THE RECORD

25X1

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FRANCE: The US defense attache in Paris reports that a French naval task force of two destroyers is en route to the Indian Ocean. The ships reportedly will transit the Suez Canal on June 15, after a four-day visit to Greece. The two warships will relieve a guided-missile frigate and a destroyer in the Indian Ocean and will remain there until the end of the year. The reopening of the Suez Canal will have a significant impact on the French Indian Ocean Fleet. Transit time around the Cape of Good Hope is about 18 days. The Red Sea route via the canal will shorten the logistics support line from the main French Mediterranean naval base at Toulon to forces in the Indian and Pacific oceans by nearly two weeks.

25X1

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BURMA: Workers and students staged small protest demonstrations in Rangoon yesterday, but no violence was reported. The protesters were commemorating the anniversary of last year's violent labor disorders, during which troops killed more than 20 demonstrators. The government hopes to keep the situation in hand this year and has sent high-ranking officials to meet with the workers and students. It has also announced that overtime pay for workers will be increased; low pay has been one of the main grievances of the workers. The US embassy reports that both the authorities and the protesters appear to be trying to avoid a serious confrontation. The mood is described as tense, however, and the level of unrest could escalate.

25X1

25X1

National Intelligence Bulletin

June 7, 1975



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PHILIPPINES-CHINA: President Marcos leaves today for a five-day trip to Peking. He will probably meet with Chairman Mao Tse-tung and Premier Chou En-lai. The principal purpose of the visit is to conclude an agreement to establish diplomatic relations between the two countries.

25X1
The Chinese Nationalists recalled their ambassador to Manila yesterday, signaling Taipei's intention to sever official relations when Sino-Philippine ties are announced.

25X1

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25X1

National Intelligence Bulletin

June 7, 1975

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USSR: The two Kanin-class guided-missile destroyers and an armed replenishment oiler that made a 12-day visit to Cienfuegos, Cuba, left there on June 4, probably en route to Northern Fleet waters. These units were in Boston from May 12 to 17 as part of an exchange visit, prior to their arrival in the Caribbean on May 21.

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